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RR RUEHBI RUEHLMC  
DE RUEHLM #0609 1761131  
ZNR UUUUU ZZH  
R 241131Z JUN 08  
FM AMEMBASSY COLOMBO  
TO RUEHC/SECSTATE WASHDC 8321  
INFO RUEHKA/AMEMBASSY DHAKA 0965  
RUEHIL/AMEMBASSY ISLAMABAD 7954  
RUEHKT/AMEMBASSY KATHMANDU 6126  
RUEHNE/AMEMBASSY NEW DELHI 2124  
RUEHKP/AMCONSUL KARACHI 2362  
RUEHCG/AMCONSUL CHENNAI 8560  
RUEHBI/AMCONSUL MUMBAI 6005  
RUCPDOG/USDOC WASHDC  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC

UNCLAS COLOMBO 000609

SENSITIVE

SIPDIS

STATE FOR SCA/INS, EEB/IFD/ODF, AND EEB/CBA  
STATE PLEASE PASS TO USTR FOR V KADER  
COMMERCE FOR JONATHAN STONE AND EROL YESIN  
TREASURY FOR LESLIE HULL

E.O 12958: N/A

TAGS: [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [CE](#)

SUBJECT: SRI LANKA: U.S. INVESTOR AES RECEIVES LONG- OVERDUE LETTERS  
OF CREDIT

REF: A. COLOMBO 509 B. 2007 COLOMBO 1002 C. 2007 COLOMBO 622 D.

2007 COLOMBO 848 E. COLOMBO 584

¶1. (SBU) Summary: U.S. power producer AES has received two long-overdue standby letters of credit to protect against non-payment by the state-owned Ceylon Electricity Board. Issuance of the letters of credit mostly resolves the Embassy's top priority advocacy case, which Ambassador has pressed for since his arrival nearly two years ago. Taking the case to presidential advisor and brother Basil Rajapaksa finally yielded progress after the energy, investment, and trade ministers were unable to deliver results. End summary.

ELEVATING AES CASE TO PRESIDENT'S BROTHER  
PRODUCES PARTIAL RESOLUTION

¶2. (SBU) AES operates a \$104 million 163 megawatt power plant in Sri Lanka. Since beginning production in 2003, AES never received contractually-required standby letters of credit from the state-owned Ceylon Electricity Board (CEB). The letters of credit are to protect AES against three months' non-payment by the CEB. Without the letters of credit, AES's lenders had been unwilling to allow AES and its co-investors to take profits from the project.

¶3. (SBU) Following Ambassador's ref A engagement with presidential advisor and brother Basil Rajapaksa, the CEB's bank, People's Bank, issued the two letters of credit on the strength of a secondary guarantee from the Sri Lankan Treasury. It was this Treasury guarantee that finally assured the state-owned People's Bank that it would not end up owing millions to AES if the money-losing CEB defaulted.

¶4. (SBU) AES Project Director Shahid Khan was out of the country when AES received the letters of credit, but he called EconOff to report the news and express appreciation. He was not concerned that the total amount covered by the letters (a combination of Rupees and Dollars totaling about \$16 million) was less than the contractually stipulated three months of payment protection.

COMMENT: WELCOME RESOLUTION OF TOP ADVOCACY CASE

¶5. (SBU) AES is satisfied with this outcome. We wish it had been

possible to resolve our highest priority advocacy case with fewer fruitless meetings with an array of ministers (refs B-D). We also wish we could be optimistic about AES ever receiving the \$3 million it is owed for power it produced under a temporary contract following a 2004 plant fire (ref E). However, AES has repeatedly emphasized that the letters of credit were more important than the \$3 million payment, so we will only press for the payment if AES asks us to do so.

¶6. (SBU) Despite this positive resolution, the problems AES experienced illustrate two significant features of the current investment climate in Sri Lanka: first, that investors doing business with the government can have little expectation of fair, transparent treatment according to the terms of their contracts; and second, that if problems arise, resolution likely requires going over the relevant ministries to President Rajapaksa or one of his brothers.

MOORE